



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LOGAN COUNTY AMBULANCE SERVICE, INC.**

For Period July 1, 1998 Through February 28, 1999

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Sarah Jane Schaaf, Secretary, Revenue Cabinet

Honorable John H. Guion III, County Judge/Executive

Members of the Logan County Fiscal Court

Board of Directors of the Logan County Ambulance Service, Inc.

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balance of Logan County Ambulance Service, Inc., Logan County, Kentucky, as of February 28, 1999, and the related statements of revenues, expenditures and changes in fund balance and the statement of cash flows for the period July 1, 1998 through February 28, 1999. These financial statements are the responsibility of the Logan County Ambulance Service, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance of Logan County Ambulance Service, Inc., Logan County, Kentucky, and the related statements of revenues, expenditures, and changes in fund balance and the statement of cash for the period July 1, 1998 through February 28, 1999, in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements of Logan County Ambulance Service, Inc., Logan County, Kentucky, taken as a whole. The information provided on the accompanying schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable John H. Guion III, County Judge/Executive
Members of the Logan County Fiscal Court
Board of Directors of the Logan County Ambulance Service, Inc.

Based on the results of our audit, we present a schedule of Comment and Recommendation, included herein, which discusses the following area of noncompliance:

- The Ambulance Service Should Have Required Depository Institution To Pledge Securities Of \$63,168 As Collateral And Entered Into A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 1999, on our consideration of Logan County Ambulance Service, Inc., Logan County, Kentucky's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 25, 1999

STATEMENT OF ASSETS,
LIABILITIES, AND FUND BALANCE

LOGAN COUNTY AMBULANCE SERVICE, INC.
STATEMENT OF ASSETS,
LIABILITIES, AND FUND BALANCE

For Period July 1, 1998 Through February 28, 1999

Assets

Current Assets:

Cash in Bank	\$ 158,996
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Liabilities and Fund Balance

Current Liabilities:

Due to Logan County Fiscal Court (Note 6)	\$ 158,996
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Fund Balance February 28, 1999 (Note 4 and 6)	0
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Total Liabilities and Fund Balance	\$ 158,996
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE

LOGAN COUNTY AMBULANCE SERVICE, INC.
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE

For Period July 1, 1998 Through February 28, 1999

Revenues

Miscellaneous Income:		
Miscellaneous Items	\$	1,041
Less:		
Medicare Markdowns		<u>45,358</u>
Net Revenues	\$	<u>(45,358)</u>

Expenditures

Schedule of Operating Expenditures	\$	26,279
Deficiency of Revenues Under Operating Expenditures		(71,637)
Other Revenues and (Expenditures):		
Lease Proceeds - Building (Note 5)	\$	9,000
Gain On Sale of Assets of Ambulance Service (Note 4)		143,773
Loss On Transfer of Machinery and Equipment (Note 6)		(704)
Loss On Transfer of Buildings and Leaseholds (Note 6)		(76,947)
Transfer to Logan County Fiscal Court (Note 6)		<u>(113,996)</u>
Deficiency of Revenues Under Expenditures	\$	(110,511)
Fund Balance - July 1, 1998 (Note 8)		<u>109,470</u>
Fund Balance - February 28, 1999	\$	<u>(1,041)</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS

LOGAN COUNTY AMBULANCE SERVICE, INC.
STATEMENT OF CASH FLOWS

For Period July 1, 1998 Through February 28, 1999

Cash Flows From Operating Activities:

Deficiency of Revenues Under

Expenditures \$ (110,511)

Adjustments:

Depreciation Expense 2,290

Decrease in Accounts Receivable 146,842

Decrease in Other Receivables 8,435

Decrease in Accounts Payable (17,629)

Decrease in Income Taxes Payable (19,891)

Net Cash Provided by Operating Activities \$ 9,536

Cash Flows From Investing Activities:

Sale of Assets of Ambulance Service \$ 56,227

Deferred Lease Proceeds - Building 45,000

Transfer Due To Logan County Fiscal Court 113,996

Loss on Transfer of Machinery and Equipment 704

Loss on Transfer of Buildings and Leaseholds 76,947

Net Cash Used in Investing Activities 292,874

Cash Flows From Financing Activities:

Decrease in Notes Payable \$ (150,000)

Decrease in Interest Payable (3,773)

Net Cash Provided by Financing Activities (153,773)

Net Decrease in Cash and Cash Equivalents \$ 148,637

Cash and Cash Equivalents at Beginning of Year 9,318

Cash and Cash Equivalents at End of Year \$ 157,955

Summary:

Cash in Bank \$ 158,996

The accompanying notes are an integral part of the financial statements.

LOGAN COUNTY AMBULANCE SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS

For Period July 1, 1998 Through February 28, 1999

Note 1. Organization

The Logan County Ambulance Service was formed in 1975 to operate an emergency medical service in Logan County, Kentucky. On January 1, 1982, the operation of the Ambulance Service became the responsibility of a Board of Directors appointed by the Logan County Fiscal Court and the City of Russellville, Kentucky. The Ambulance Service is managed by a Director and Assistant Director under the guidance of the Board of Directors. On May 26, 1998, the 7th Judicial Circuit, Logan Circuit Court ruled that the Logan County Fiscal Court had ultimate control of the Logan County Ambulance Service, Inc. On June 23, 1998, the Logan County Fiscal Court voted to accept a bid from Commonwealth Health Corporation for the sale of the assets of the Logan County Ambulance Service, Inc. effective July 1, 1998. From July 15 to July 27, 1998, the Board of Directors resigned. Therefore, on July 28, 1998, the Logan County Fiscal Court voted to appoint Fiscal Court members to the Board of Directors. As of February 28, 1999, the Board of Directors are as follows:

John H. Guion III	Board Chairman
Starling Murphy	Board Member
Harold Prince	Board Member
Curtis Watkins	Board Member
Jimmy White	Board Member
Wyatt Ezell	Board Member
Harris Dockins	Board Member

Note 2. Summary of Significant Accounting Policies

A. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.

B. Basis of Accounting

The financial statements were prepared on a modified accrual basis of accounting pursuant to generally accepted accounting principles. Consequently, revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

C. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

Note 2. (Continued)

LOGAN COUNTY AMBULANCE SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
For Period July 1, 1998 Through February 28, 1999
(Continued)

C. Cash and Investments (Continued)

KRS 66.480 authorizes the ambulance service to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Accounts Receivable

Accounts receivable consists of amounts due to Logan County Ambulance Service, Inc. from patients. Amounts uncollected after six months are written off as uncollectible. Since the Logan County Ambulance Service, Inc. ceased operations as of July 1, 1998, no services were billed to patients during the period of July 1, 1998 through February 28, 1999. Therefore, as of February 28, 1999, the entire accounts receivable balance of \$285,210 was over six months and considered uncollectible. Allowance for doubtful accounts as of February 28, 1999 was \$285,210. Bad debt expense as of February 28, 1999 was \$19,873.

E. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 30 years. Depreciation expense for the period July 1, 1998 through February 28, 1999 was \$2,290.

During the period July 1, 1998 through February 28, 1999, the Logan County Ambulance Service, Inc. disposed of all property and equipment. On July 1, 1998, the Logan County Ambulance Service, Inc. sold furniture and fixtures and machinery and equipment of \$194,180 with accumulated depreciation of \$137,953 to Commonwealth Health Corporation for \$200,000 (Note 4). On July 1, 1998, the Logan County Ambulance Service, Inc. also transferred machinery and equipment of \$12,345 with accumulated depreciation of \$11,641 to the Logan County Fiscal Court (Note 6). On February 8, 1999, the Logan County Ambulance Service, Inc. transferred buildings and leaseholds of \$129,093 with accumulated depreciation of \$52,146 to the Logan County Fiscal Court (Note 6).

The Logan County Ambulance Service, Inc. has the use of equipment funded through Senate Bill 66 grants. Senate Bill 66 grants provide funding from the State of Kentucky and from local governments for the purchase of equipment. If any of this equipment is sold, a refund of the State share will be necessary. The Logan County Ambulance Service, Inc. sold or transferred this equipment during fiscal year 1998 and during the period July 1, 1998 through February 28, 1999. The Logan County Fiscal Court has assumed responsibility for any resulting liability. The County Judge/Executive and County Attorney are currently negotiating with the State to determine the amount of funds to be refunded. However, the maximum amount the Logan County Fiscal Court will have to refund is \$87,361.

Note 2. (Continued)

LOGAN COUNTY AMBULANCE SERVICE, INC.
 NOTES TO FINANCIAL STATEMENTS
 For Period July 1, 1998 Through February 28, 1999
 (Continued)

F. Income Taxes

The Logan County Ambulance Service, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 3. Deposits

The Logan County Ambulance Service, Inc. maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of February 28, 1999, the uncollateralized amount on deposit was \$63,168. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the ambulance service did not have a written agreement with the depository institution.

	<u>Bank Balance</u>
Collateralized with securities held by the ambulance service's agent in the ambulance service's name	\$ 0
Collateralized with securities held by pledging depository institution in the ambulance service's name	0
Uncollateralized and uninsured	<u>63,168</u>
Total	<u>\$ 63,168</u>

Note 4. Sale of Assets of Ambulance Service

On June 23, 1998, the Logan County Fiscal Court accepted the bid from Commonwealth Health Corporation in the amount of \$200,000 for the sale of the assets of the Logan County Ambulance Service, Inc. effective July 1, 1998. The assets sold included furniture and fixtures and machinery and equipment of \$194,180 with accumulated depreciation of \$137,953. This transaction resulted in a gain of \$143,773. The Logan County Fiscal Court, Logan County Ambulance Service, Inc., and Commonwealth Health Corporation signed an Asset Purchase Agreement on August 28, 1998.

LOGAN COUNTY AMBULANCE SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
For Period July 1, 1998 Through February 28, 1999
(Continued)

Note 5. Lease of Ambulance Service Building

On September 1, 1998, the Logan County Ambulance Service, Inc. and Logan County Fiscal Court entered into a lease agreement with Commonwealth Health Corporation. Commonwealth Health Corporation is leasing the Ambulance Service building from the Ambulance Service and Fiscal Court. The lease is for twenty years at a monthly rental of \$1,500. The lease agreement requires Commonwealth Health Corporation to make an advance payment for the first three years of rent of \$54,000. This agreement resulted in lease proceeds of \$9,000 and deferred lease proceeds of \$45,000. On March 10, 1999, the deferred lease proceeds of \$45,000 were transferred to the Logan County Fiscal Court. As discussed in Note 6, the Ambulance Service building was transferred to the Logan County Fiscal Court on February 8, 1999.

Note 6. Transfer of Assets of Ambulance Service

- A. On July 1, 1998, the Logan County Ambulance Service, Inc. transferred machinery and equipment of \$12,345 with accumulated depreciation of \$11,641 to the Logan County Fiscal Court. This transaction resulted in a loss of \$704.
- B. On February 8, 1999, the Logan County Ambulance Service, Inc. transferred buildings and leaseholds of \$129,093 with accumulated depreciation of \$52,146 to the Logan County Fiscal Court. This transaction resulted in a loss of \$76,947.
- C. As of February 28, 1999, the Logan County Ambulance Service, Inc. had remaining assets of cash in bank of \$158,996 and accounts receivable of \$285,210 with allowance for doubtful of accounts of \$285,210. These remaining assets are to be transferred to the Logan County Fiscal Court. The cash in bank of \$158,996 due to the Logan County Fiscal Court as of February 28, 1999 consists of deferred lease proceeds – building of \$45,000 and the fund balance of \$113,996. On March 1, 1999, the Logan County Ambulance Service, Inc. transferred accounts receivable of \$285,210 (Note 2D) to the Logan County Fiscal Court. On March 10, 1999, the Logan County Ambulance Service, Inc. transferred \$158,996 to the Logan County Fiscal Court. These transactions resulted in the closeout of the Logan County Ambulance Service, Inc.

Note 7. Contingency

The Internal Revenue Service (IRS) has assessed penalties and interest of \$1,410 on the Logan County Ambulance Service, Inc. on IRS Form 941 for tax period ended June 30, 1998. The Logan County Attorney has requested the IRS waive the penalty and interest on the grounds that the Logan County Ambulance Service, Inc. has been dissolved and all assets have been transferred to the Logan County Fiscal Court as payment for tax money used to support the Ambulance Service over many years. The Logan County Fiscal Court has assumed responsibility for this possible liability.

Note 8. Fund Balance Adjustment

The June 30, 1998, fund balance is increased by \$5,735 due to negotiated settlements on one contract and two leases.

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SCHEDULE OF EXPENDITURES

LOGAN COUNTY AMBULANCE SERVICE, INC.
SCHEDULE OF EXPENDITURES

For Period July 1, 1998 Through February 28, 1999

Operating Expenditures

Accounting and Audit Fees	\$ 395
Depreciation	2,290
Insurance - General	3,323
Office Supplies	215
Refunds	80
Bad Debts	19,873
Miscellaneous	<u>103</u>
Total Operating Expenditures	<u>\$ 26,279</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable John H. Guion III, County Judge/Executive
Members of the Logan County Fiscal Court
Board of Directors of the Logan County Ambulance Service, Inc.

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Logan County Ambulance Service, Inc., Logan County, Kentucky, for the period July 1, 1998 through February 28, 1999, and have issued our report thereon dated March 25, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Logan County Ambulance Service, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Logan County Ambulance Service, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable John H. Guion III, County Judge/Executive
Members of the Logan County Fiscal Court
Board of Directors of the Logan County Ambulance Service, Inc.
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 25, 1999

COMMENT AND RECOMMENDATION

LOGAN COUNTY AMBULANCE SERVICE, INC.
COMMENT AND RECOMMENDATION

For Period July 1, 1998 Through February 28, 1999

NONCOMPLIANCES

The Ambulance Service Should Have Required Depository Institution To Pledge Securities Of \$63,168 As Collateral And Entered Into A Written Agreement To Protect Deposits

The ambulance service's deposits were not adequately secured by \$63,168 as of February 28, 1999. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The ambulance service should require the depository institution to pledge sufficient securities as collateral to insure deposits at all times. We also recommend the ambulance service enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

No response.

PRIOR YEAR FINDING

This finding was not corrected and is repeated.

The Ambulance Service Should Have Required Depository Institution To Pledge Securities As Collateral And Entered Into A Written Agreement To Protect Deposits